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COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, JULY 5, 2001

APPLICATION OF

VIRGINIA ELECTRIC AND
POWER COMPANY

CASE NO. PUE990166

1998 Annual Informational Filing

Order

On July 1, 1999, Virginia Electric and Power Company ("Virginia Power" or "the Company") filed its Annual Informational Filing ("AIF") and Earnings Test¹ as required by the Commission's August 7, 1998, Final Order in Case No. PUE960296² and the Commission April 2, 1999 Order in this docket. Virginia Power's filing was supported by financial and operating data for the twelve months ended December 31, 1998. Its filing reflected a return on equity, after adjustments, of 10.66%.

The Commission Staff filed its Report on Virginia Power's AIF and Earnings Test on February 9, 2001. The Staff determined that Virginia Power's 1998 earnings, after regulatory accounting adjustments, generated a 11.12% return on average equity for the

¹ An earnings test is used to measure a regulated utility's ability to recover deferred costs (regulatory assets) through current period earnings in excess of the utility's authorized return.

² Commonwealth of Virginia ex rel. State Corp. Comm'n, ex parte: Investigation of Electric Utility Industry Restructuring - Virginia Electric and Power Company, 1998 S.C.C. Ann. Rep't 322.

1998 test year, on jurisdictional basis. The Staff stated that such return is sufficient to enable a write-off of \$30.7 million and still maintain an equity return of 10.50%. Pursuant to the Stipulation in Case No. PUE960296, two-thirds of the excess earnings can be used to write off regulatory assets.

Accordingly, the Staff recommended that \$20.5 million (before taxes) in deferred capacity costs be written off as part of the \$220 million write-off of regulatory assets agreed to in the Stipulation adopted in Case No. PUE 960296.

Virginia Power filed a response to the Report of the Commission Staff on May 11, 2001. The Company stated that the Commission, in the Company's 1997 Earning Test, Case No. PUE980808, deferred ruling on all issues relative to the Company's earnings until the final earnings test under the Stipulation for calendar year 2001. Virginia Power noted that we stated in our October 20, 1999, Order in Case No. PUE980808, that deferring ruling in the matter until the end of the Stipulation period would ensure that the Commission retains the ability to consider all issues that will arise during the period of transition to customer choice in retail electric service that may affect the Company's earnings and its ability to write off regulatory assets. Virginia Power requested that we defer ruling on issues related to the Company's 1998 Earnings Test for the reasons we gave in Case No. PUE980808.

NOW THE COMMISSION, upon consideration of the Staff Report and Virginia Power's response, is of the opinion and finds that a ruling on the recommendation contained in the Staff's Report should not be made at this time. As we have stated previously, we will not bind the Commission, our Staff, or Virginia Power by ruling on issues relative to the Company's annual earnings test prior to the earnings test for the twelve months ending December 31, 2001, the final such period under the Stipulation. By deferring a final ruling in this matter until the end of the Stipulation period, we will ensure that the Commission retains the ability to consider all issues that will arise during the period of transition to customer choice in retail electric service that may affect the Company's earnings and its ability to write off regulatory assets. Virginia Power retains the right to respond further to any issues raised in the Staff Report on the 1998 Earnings Test until such time after it has filed its final Earnings Test for 2001.

IT IS ORDERED:

(1) The Commission will defer ruling on all issues relative to Virginia Power's 1998 earnings, including the Staff's recommendation for a write-off of \$20.5 million in regulatory assets, until the final Earnings Test under the Stipulation for calendar year 2001.

(2) This matter shall remain on the Commission's docket of pending proceedings.